(Sheryl) Moore's Law on Annuities in 2021

By Kerry Pechter *Thu, Jun 17, 2021*

RIJ talks with Sheryl Moore of Wink, Inc., the annuity data and consulting firm, about the results of her first-quarter 2021 survey of annuity sales. She shares her opinion on a range of annuity-related topics.

A preliminary peek at Wink's first-quarter 2021 Annuity Sales Report has just arrived here at *Retirement Income Journal*, as it does every June as part of a joint effort of RIJ and Wink to bring the annuity market into sharper focus for my readers and Wink's clients.

We've been distilling the report's 90 pages for insights. We've interviewed Sheryl Moore, the owner of Wink, Inc., to hear her takeaways from the report—a 3-D snapshot that assembles current and historical data about issuers, products and distributors in one place.

Traditional variable annuities (VAs) and multi-year guaranteed rate fixed annuities (MYGAs) still account for more than half of new sales ($21 billion and $13.3 billion, respectively), in the first quarter), with Jackson National dominating the VA category and New York Life MYGAs.

But the energy in annuity sales has shifted toward index-linked products. Fixed indexed annuities and registered index-linked annuities (RILAs, aka structured annuities) sold a combined $23.4 billion in the quarter ($14.4 billion and $9.1 billion, respectively.

The extended interest rate drought has driven that shift in a couple of ways. With safe bond yields chronically depressed, FIAs or RILAs try to offer competitive caps and participation rates by giving policyholders products that offer partial exposure to equities through the purchase of options on equity indices.

The shift to indexed products has also been driven by the entrance over the past ten years of new or under-new-management insurers like Athene, Fidelity & Guaranty Life, Global Atlantic and others. They are a source of illiquid assets to their asset-manager partners (Apollo, Blackstone, and KKR, respectively) who use them to buy high-yielding bundled securities.

Wink's data showed that annuity purchasers range in age from 45 to 80, but most fall between the ages of 60 and 69. The average premium for policies ranges from about $100,000 to $200,000. As clients get older, they tend to buy more conservative annuities.

The average age for VA purchasers is 60, for structured annuities, 63, for indexed annuities, 65, and for MYGAs, age 69. Average premiums run in the opposite direction, with VAs attracting the most money ($224,700, on average) and MYGAs attracting the least ($128,800, on average).

Overall, annuity sales totaled $58 billion in 1Q2021, according to Wink. That was 3% more than the fourth quarter of 2020 and 10% more than the first quarter of 2020. According to the Investment Company Institute, life insurers manage or administer some $2.46 trillion in annuity reserves for Americans (out of about $35.4 trillion in retirement savings). Of that amount, about $2.1 trillion is in variable annuities, whose underlying assets are mutual funds, according to Morningstar.

The life of RILAs

RILAs have seen the greatest increases in sales in recent years ($9.05 billion in 1Q2021, 86% higher than 1Q2020). Just ten companies account for 99% of the sales in this category. The product has been a life-saver for big life insurers who needed an alternative to VAs with living benefits. The guarantees of those generous products were difficult to support at low interest rates.

Equitable (then AXA Equitable) introduced the structured annuity (a relative of a security called a structured note) in 2010. Equitable was the top issuer of RILAs in 1Q2021, with a nearly 20% market share, but Prudential's FlexGuard contract, introduced in 2020, was the top-selling RILA for the quarter.

"The structured annuity is the golden child right now," Moore told *RIJ*. "It's relatively new, and everybody likes a bright shiny new object. Also, the current pricing is so difficult right now for fixed indexed annuities that structured annuities look much more attractive by comparison. The shift away from variable annuities with living benefits has also helped the RILAs."

RILA sales haven't caught up with sales of FIAs, which reached $14.4 billion in 1Q2021. The top issuer of FIAs for the quarter was Athene USA (11.6% market share), followed by AIG and Allianz Life. The top-selling contract was Allianz Life's Allianz Benefit Control or "ABC" annuity.

Athene's leading FIA contract is the Agility 10. "Athene has had very attractive products with attractive illustrations," Moore said. "They distribute through multiple channels—especially banks and independent agents—and they have proprietary product offerings." Their association with the alternative asset manager Apollo "has helped them, but it's not the reason they're number one. In my experience, they tend to have more attractive rates than their peers."

Athene has benefited from its association with Annexus, the Scottsdale, Arizona company that does product development for life insurers and distributors. "Athene and Annexus are partnered together on the Athene BCA 2.0 and Velocity FIAs. In this relationship, Annexus has co-developed the product and cooperated on index selection. These FIAs are then distributed to the Annexus IDC partner firms," Tom Haines, senior vice president, Capital Markets and Index Solutions at Annexus, in an interview.

RILAs and FIAs may look like cousins—their products extract yield from equity or hybrid indices via the purchase of options—but they are rarely found in the same place. Allianz Life is the only issuer that posts big sales in both spaces. FIAs are distributed primarily by independent insurance agents, while RILAs are SEC-registered products sold mainly by securities-licensed advisers at independent broker-dealers.

The two product-types also differ in the way they use options. RILAs offer access mainly to common equity indices like the S&P 500 for large-cap stocks, NASDAQ-100 for tech exposure, Russell 2000 for small-cap stocks, and MSCI-EAFE for international exposure. RILA investors can also lose money if the equity markets fall past a "buffer" of minus-10% or more.

By contrast, FIAs protect investors from any loss over the term of contract. The stiffer guarantee makes their options more expensive, which pushes down the generosity of the crediting rates they can offer. They increasingly solve this problem by offering access to hybrid indices. Many of these are dynamically reallocated, as often as daily, to stay within certain volatility limits. These indices, because of their built-in hedging mechanisms, allow FIA issuers to offer more generous-looking crediting methods.

The annuity world today seems divided into fans and skeptics of hybrid indices. Moore is one of the skeptics. "All fixed indexed annuities, regardless of index or indexing method, will return approximately 1% to 2% greater interest than [traditional] fixed annuities being issued on the same day," she said. "I and others are educating people on the realities of the situation."

RIAs and 401(k)s: Still elusive markets

Annuity issuers have been trying for years to convince Registered Investment Advisors (or their Investment Advisor Representatives) to sell annuities. But, even with the creation of platforms like DPL Financial Partners or SIMON, where RIAs and other fee-based advisers without insurance licenses can purchase no-commission annuities, the category cross-over hasn’t happened yet.

Wink’s 1Q2021 report showed that 5.85% of traditional VA sales involve fee-based, as opposed to commission-paying, contracts. But the report also showed that RIAs account for only 2% of sales traditional VAs and less than one percent of sales of MYGAs, RILAs, or FIAs.

“There had been an increase in fee-based sales but only by one or two percent,” Moore told *RIJ*. “We’re talking about building an entirely new distribution for annuities and we have to educate them and help them unlearn the negatives.

“Annuity is still a four-letter word for a lot of people in finance. The press still talks about seniors being taken advantage of by annuity salesmen, and about annuities not allowing them access to their money. RIAs are reading those stories and they are influenced by them.”

The discussion moved to the possibility that life insurers will soon be able to market annuities through 401(k) plans. Provisions in recent federal legislation, such as the SECURE Act of 2019 and the proposed “Secure 2.0,” have removed some of the obstacles to making annuities available to plan participants.

Moore believes that hurdles are still standing in the way. “I’m excited about the development” of a push to get annuities in 401(k)s. “When the SECURE Act came out, there was finally some positive press about annuities. But don’t hold your breath. There is so much administrative groundwork that have to be done just to put a product in a retirement plan, and companies that don’t currently have ERISA products will be at a disadvantage. How do you even get in front of an HR person, or how do you know if that’s the right person to see? There are a lot of unanswered questions.

“How does a life insurer get in front of participants or provide collateral that competes with all the other options that participants see? Will there be one or more annuity per plan? What is the marketing and the messaging going to look like. How will a company support their offering?” she said. “It’s exciting, but don’t expect immediate results.”